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This is a long overdue report which I am sending up now, even though it is dated, in the hope that it will help clear our book. The data are for 1958, but the time required to up-date the information would be excessive, and would not be warranted in view of the work done since compilation of the 1958 data. Some of the data compiled for this report have been used in our first annual review of merchant shipping, and this compilation pointed the way for an improved section on utilization of cargo space which will appear in this year's version of EIC R-16. The report, therefore, has already served useful purposes. You should know that there is a conflict in the arrival tonnage used in this report and in the EIC R-16 Series--see footnote p. 4--in the event that there is any thought that the report should be published at this late date.							
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ORR PROJECT NO. 43.2301

THE DEPENDENCE OF COMMUNIST CHINA ON FOREIGN MERCHANT SHIPPING IN 1958

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FOREWORD

Communist China is nearly wholly dependent on foreign shipping service for the movement of seaborne international trade and in addition foreign ships are used for the movement of some coastal cargoes.

Shipping service associated with China's international trade has been the subject of study by the Economic Intelligence Committee for a number of years.

The most recent study in the series of reports prepared by the Committee is

A Summary of the International Trade and Transport of Communist China, 1959,

EIC-R16-S1, July 1960. Only gross measures of the dependence of China on foreign shipping service have been presented in reports of the Committee, because of the limitations of data. Sufficient data have now become available for 1958, however, to permit a more precise measure of the dependence of China on foreign shipping service for both coastal and international trade cargoes in that year.

The purpose of this report, therefore, is to supplement the series of reports mentioned above, and to provide a more precise measure, at least for 1958, of the dependence of China on the various types of shipping service made available by Bloc and non-Bloc countries. The report also provides an estimate of foreign exchange expenditures and receipts of China in shipping service during 1958.

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SECRETTHE DEPENDENCE OF COMMUNIST CHINA ON FOREIGN MERCHANT SHIPPING IN 1958*Summary and Conclusions

Communist China in 1958 was dependent on foreign shipping to carry almost all of its seaborne international trade and about 14 percent of its domestic coastwise trade. In the latter movement, foreign ships of both non-Bloc and Bloc ownership were used, principally in the sector by-passing Formosa, with non-Bloc vessels moving freight tonnage in a ratio of about 13 to 1 vis-a-vis Bloc ships. In the international movement, Bloc ships represented only about a seventh of the total shipping tonnage*** arriving in the ports of China during the year.

Ships under charter to China carried the majority of China's international imports (55 percent). Tramp ships carried the next largest amount of imports, followed by ships in liner service, the capacity of which was utilized relatively lightly. Tramp ships not under Chinese control moved the bulk (76%) of the international exports. These were sold free on board (f.o.b.)**** Chinese ports. Ships under charter to China are estimated to have moved only about 13 percent of the total volume of exports, these being sold on a cost, insurance, freight (c.i.f.)***** basis, foreign ports. The remaining exports (11 percent of the total)

* The estimates and conclusion in this report represent the best judgement of this Office as of 1 May 1961.

** Unless otherwise specified, the term China and Chinese are used hereafter in this report to mean Communist China or Chinese Communist.

*** Tonnages are given in metric tons throughout this report.

**** Free-on-board (f.o.b.) Chinese ports means that the importer of the Chinese goods paid the transportation charges from Chinese ports to foreign ports of destination.

***** Cost, insurance, freight (c.i.f.) basis means that the price of the Chinese goods to the importer included cost, insurance, and freight to the foreign port of destination, thereby obligating China to provide the transportation and enabling her to earn the freight charges.

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were moved on ships providing liner service from the ports of China to foreign destinations.

Total expenditures of China for foreign shipping service in 1958 are estimated at about \$60,000,000*. This amount was offset by earnings on c.i.f. exports totaling about \$6,000,000, so that the net expenditures for foreign shipping service approximated \$54,000,000.

* Monetary units are given in United States dollars throughout this report.

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I. The Nature of Dependence*A. Total Seaborne Trade

The domestic and international seaborne trade of China transported in merchant ships amounted to 29.9 million tons in 1958. Domestic seaborne trade represented about two-thirds of the total and international seaborne trade one-third. The portion of this trade carried by Chinese merchant vessels was about 56 percent, and consisted almost exclusively of the relatively short-haul coastal cargo. Only small amounts of international trade with Hong Kong, North Korea and North Vietnam were moved in the ships of China. Foreign vessels were needed, therefore, to move the bulk of China's seaborne international trade and a considerable amount of the coastwise domestic trade.

B. Coastwise Domestic Trade

Domestic seaborne trade totaled 19.7 million tons in 1958 of which the Chinese merchant marine moved 17.0 million or 87 percent. The remaining 2.7 million tons were transported by foreign ships. Average length of haul of this traffic was about 820 kilometers which although impressive in terms of the average haul of other domestic carriers, is short in terms of the length of international shipments. It accounts for the fact that such a large percentage of the coastal traffic could be carried by the small, old but growing domestic fleet.

C. Seaborne International Trade

International trade by sea accounted by 10.25 million tons in 1958 of which 4.52 million tons were imports and 5.73 million tons were exports.** Only

* For serially numbered source references, see Appendix C. Unless specifically cited, the sources for this report are included in source 1/. The methods used in computing the estimates are stated in Appendix A, Methodology.

** Included in these amounts are 50,000 tons of imports and 580,000 tons of exports, a total of 630,000 tons, which moved between China and Hong Kong in junks and launches.

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300,000 tons of the total international trade were moved by the merchant marine of China between the points mentioned above. China, therefore was almost wholly dependent on foreign ships for the movement of seaborne international trade.

The average length of haul of the world-wide international shipments is estimated at 7,000 kilometers, over 8.5 times the average haul in coastwise traffic. This comparison of distances illustrates dramatically why a greater amount of shipping service is needed for international shipments than coastal movements even though the volume of international trade is only one-third of the total seaborne traffic.

II. The Nature of Foreign Shipping Service Provided

A. Seaborne International Trade

Approximately 111 million deadweight tons (DWT) of foreign shipping arrived in the ports of China, and about 10 million DWT departed from these ports in 1958. A more meaningful measure of China's dependence is provided, however, by an analysis of the types and use of shipping service provided for China. These types fall into the following service categories: ships under charter to China**, liner service*** and tramps or general traders.****

Ships under charter to China transported the largest share of seaborne imports to China (55.4 percent of the total volume), although ships in this category represented the smallest share of the DWT of vessels arriving in the ports of China

* Deadweight tonnage is a measure of the carrying capacity of a ship in metric tons--that is, the difference between the ships displacement light and its displacement loaded. This magnitude does not correspond to the arrival tonnage estimated for 1958 in EIC-R-16, A Summary of the International Trade and Transport of Communist China, 1957-58, June 1959, 8, which is stated in gross registered tons. Even though the measures were comparable there would be some difference in this estimate and the estimate in the cited report, because the methods used in compiling arrival tonnage are not identical.

** This category includes foreign ships under voyage or time charter.

*** Liner service is provided by shipping companies which have ships serving the ports of China on a regularly scheduled basis.

**** Tramp ships frequently arrived as ships under charter to China and accordingly are regarded as being in that category for arrivals. Upon termination of the charter, however, they became tramps. Other tramp ships arrived in Chinese ports in ballast to load cargoes exported f.o.b. Chinese ports.

(27 percent). Ships in liner service accounted for the largest share of the DWT of vessels arriving (40 percent), but transported only 13.7 percent of the imports. Tramp ships transported about 31 percent of the imports and represented 33 percent of the DWT of ships arriving. As might be expected, tramp ships, many of which arrived as vessels under charter to China, transported 76 percent of the tonnage of exports. Ships in this category departing represented 48 percent of the total DWT. Liners were the second largest category of DWT departing but moved the smallest volume of exports, (11.2 percent). Vessels under charter to China transported only 12.8 percent of the exports and the DWT of ships in this service category was the smallest, only 8 percent of the total tonnage departing, all of which were time charters. See Table 1.*

1. Chartered Ships

All ships chartered on a voyage basis were contracted for in a foreign port to transport a specific cargo to China. These charters terminated upon the discharge of the cargo in China, and the ships thereupon reverted to their owners for new employment. If Chinese or other Far Eastern export cargoes were available, the ships could be chartered by importing countries for the purpose of moving such cargoes, and during such movement would have had no further affiliation with China. Occasionally ships chartered on a voyage basis by China were ~~taken~~ ^{chartered} over by the Chinese on time charter upon their arrival in China.

Ships chartered on a time basis came under Chinese control at specific points of convenience to the owners and the Chinese. Most of the ships originated in Europe and proceeded to China with cargoes. Upon unloading, they

* Following p. 6 .

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Table 1

Dependence of Communist China on Foreign Shipping Service for International Trade by Type of Service and Expenditures - 1953

Type of Shipping Service	Foreign Seaborne Imports				Foreign Seaborne Exports			
	Percent of Total Shipping Service a/	Estimated Imports Tons b/	Percent of Total	Estimated Expenditures (US Dollars) b/	Percent of Total	Percent of Total Shipping Service c/	Estimated Exports Tons b/	Percent of Total
Ships Under Time Charter	16.4	1,255,000	29.2	30,800,000	51.3	8.0	650,000	12.8
Ships Under Voyage Charter	10.6	1,118,000	26.2	2,800,000	16.2			
Chartered Ships, Sub-Total	27.0	2,373,000	55.4	40,600,000	67.5	8.0	650,000	12.8
Non-Bloc Liners - Europe	21.7	300,000	7.1	6,140,000	11.0			
Non-Bloc Liners - Hong Kong	5.2	50,000	1.1	310,000	0.5			
Non-Bloc Liners - SE Asia	11.8	140,000	3.3	2,120,000	3.0			
Non-Bloc Liners - Sub Total	38.7	490,000	11.5	8,570,000	14.5	12.5	125,000	8.6
Bloc (Polish) Liners - Europe	1.3	95,000	2.2	2,200,000	3.0	1.5	134,000	2.6
Liner Service - Sub-Total	40.0	586,000	13.7	10,770,000	17.5	14.0	259,000	11.2
Non-Bloc Tramps	20.2	760,000	17.8	4,570,000	7.6	34.4	2,753,000	54.0
Bloc - Tramps	12.8	560,000	13.1	4,570,000	7.4	13.6	1,102,000	22.0
Tramp Service - Sub-Total	33.0	1,320,000	30.9	9,100,000	15.0	48.0	3,855,000	76.0
Grand Total	100.0	4,278,000	100.0	60,470,000	100.0	100.0	5,064,000	100.0

a. Shipping service has been measured by the total DWT of ships arriving in ports.

b. Appendix A, methodology.

c. Shipping service has been measured by the total DWT of ships departing from ports.

d. China is estimated to have earned \$6,500,000 on exports moved in ships under time charter computed on basis of \$10.00 per ton.

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were either reloaded to a foreign port, put in Chinese coastwise service, or released. Some ships arrived in ballast specifically to enter the coastwise service. A few were sold to China, and eventually the rest returned to Europe or continued elsewhere in the world under charter to new parties.

In 1958, China chartered approximately 27½ vessels from 16 non-Bloc countries. Time charters were negotiated for 162 vessels and voyage charters for 112 vessels. The principal flags represented among the chartered vessels were British, Norwegian, Greek, German, Italian, and Danish with the British furnishing approximately four times as many ships as Norway, the next highest country. The number, tonnage and flag of ships chartered by China in 1958 are shown in Table 2.*

The total number and tonnage of ships chartered during one year do not reflect properly the dependence of China on chartered foreign ships, however, because there is considerable variation in the duration of charters for specific ships, some being chartered for as short a period as a month, and others lasting throughout the year. A more appropriate measure, therefore, is vessel months, with each vessel month multiplied by the deadweight tonnage of the individual vessel chartered from which can be calculated the tonnage under charter for the average month during the year.

Sinofracht, the official chartering agency, hired foreign shipping for a total of 732 vessel months during 1958, and so the average month in the

* Table 2 follows on p. 8 .

year, therefore, found 61 vessels under charter. The average vessel was of 9,350 DWT,* and a figure of about 562,200 DWT consequently was the average monthly employment of foreign vessels by China during the year.

This figure may still be subject to misinterpretation, however, because it conceals the variation in the amount of shipping under charter at specific times during the year. Figure 1** presents the number and deadweight tonnage^{of ship} under charter at the end of each month. The increase in tonnage time-chartered by Sinofracht in the last quarter of 1958 reflects in a very large measure the requirements for increased coastal shipping, but with the exception of 30 vessels which arrived in ballast for this service, each new chartered ship arriving in China provided an additional inbound cargo. Charter rates declined to a low point in the final quarter because of the surplus of tonnage offered in the world shipping market, and by taking advantage of this situation China was able to reduce her dependence on the high rate liner service. This action consequently forced a reduction in the liner rates, a measure which China had been seeking for some time. Moreover, by controlling a large amount of shipping space and schedules, Sinofracht was able to make expeditious arrangements for loading and deliveries at both Chinese and foreign ports, and therefore conserved the need for shipping service.

It is estimated that 95 percent of available space was used on ships arriving from Europe on voyage charters. On ships arriving under time charters, however, it is estimated that only 70 to 75 percent of the load capacity was used on the average, because some time chartered ships arrived in ballast from

* Weighed on the basis of months under charter.

** Figure 1 follows on p. 10 .

nearby foreign ports to enter the Chinese coastal service. On outbound voyages of vessels under time charter, about 80 percent of available cargo space is estimated to have been used. Other export tonnages were moved on liners and tramps.

2. Liner Service

Voyages of the largest number of ships in liner service calling at the ports of China originated in European ports. These same ships passed through the Suez canal and called also at ports en route to China and Japan. They frequently called at ports of China also on their homeward journeys from Japan. During 1958, 141 western European ships in liner service called at the ports of China. In addition, 23 liners operated between Chinese ports and Hong Kong, 64 liners provided service between China, Southeast Asia, Australia and South Africa, and 5 ships made trips between China and Canada. It is estimated that only 9 to 12.5 percent of the cargo capacity of these liners were used for imports into China and 10 percent for exports. Seven Polish ships in liner service between Gdynia and Chinese ports, however, are believed to have been loaded to the extent of two-thirds or more of their capacities in both directions, probably more heavily outbound from China.

3. Tramp Ships

There were about 580 arrivals of ships other than vessels chartered by China or in liner service in the ports of China during 1958. About 70 percent were of non-Bloc registry and the remainder were Bloc. Departures of ships in this category were augmented by the customary release of vessels under voyage charter to China at the termination of their inbound voyages and totaled about 700 of which

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76 percent were of non-Bloc registry and the remainder were of Bloc registry.

The employment of the vessels not under charter to China depended upon the intentions, convenience and costs of the foreign owners or charterers. Often such ships carried imports to China from the country of origin, but more frequently they were chartered by foreign interests to load and transport cargoes from Chinese ports, and thus arrived in China in ballast. Vessels departing from China after release from Chinese charter, however, were nearly always loaded. In view of these considerations, it is estimated that non-Bloc ships in this category arrived on the average with loads up to 35 percent of capacity and Bloc ships arrived with loads up to 40 percent of capacity. Ships in this category departing are estimated to have been loaded to 80 percent of capacity on the average.

B. Coastwise Domestic Trade

The Chinese merchant fleet consisted of 108 vessels of a total of 491,900 deadweight tons at the close of 1958. ^{2/} In that year, three sectors of traffic movement were in effect along the coast of China. First was the sector to the north of Taiwan in the Yellow and East China Seas. Second was the sector to the south of Taiwan, with ship movements confined to the South China Sea. In both of these sectors, the Chinese used their own vessels as well as chartered ships. The gap between the northern and southern sectors constituted the third sector. Ships serving this sector overlapped the routes of the other two sectors, but the Chinese Communists did not attempt to send their own coastal ships either through the Formosa Straits or around the outer side of Taiwan, owing

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to the potential opposition of the Nationalists. This sector, therefore, was left to ships of foreign nationality which accounted for about one-seventh of coastwise traffic.

Foreign vessels in the China trade have not been intercepted by the Chinese Nationalists in recent years while transiting the Taiwan Straits, and they have seldom been molested elsewhere along the China coast. Of the 2.7 million tons of Chinese coastal traffic carried in foreign ships in 1958, only about seven percent or 0.2 million tons were carried in Bloc ships. The preponderance of this traffic, therefore, was carried in non-Bloc ships. Some 83 non-Bloc and 15 Bloc vessels were used.

Figure 2* shows the employment of these vessels by each month during the year. This chart is only a general indicator of ship employment. It does not show the availability of cargo space on vessels or vessel tonnages, because of the marked disparity in the number of coastal voyages performed during each month by different vessels. The increased use of foreign ships during the later months resulted from the needs of the "leap forward" movement in that year, the shifting of some coal and other bulk commodity traffic from rail to sea to make available more rail equipment for movement of the harvest, the opening of the iron ore mines at Paso on Hainan Island, and the desire to achieve planned targets by the end of the year.

A total of 180 non-Bloc and 18 Bloc ship months are indicated which would amount to 16 foreign vessels employed in coastal service during the average

* Figure 2 follows on p. 14 .

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month of 1958. The actual average number employed steadily in coastal service would be less, however, as many vessels worked only during a portion of the month for which they are shown in Figure 2. The maximum number of non-Bloc vessels used in any one month was 54 in December. All of these are believed to have been operating under time charter to China.

III. Expenditures of China for Foreign Shipping Service

China spent about \$60,000,000 for foreign shipping service in 1958, and probably earned offsetting credits of at least \$6,000,000 by collecting freight charges on cargoes carried on outbound vessels under time charter to China. The net debit was therefore about \$54,000,000. See Figure 3.* Of this sum, approximately \$47,000,000 had to be paid in transferable foreign currency except for a small but unknown amount owed to Finland with which China had a clearing agreement. The balance of \$7,000,000 was owed to other members of the Bloc with whom trade agreements permitted more flexibility in time and type of payment.

A. Expenditures for Chartered Ships

China is estimated to have expended \$40,600,000 of foreign exchange in the chartering of non-Bloc ships in 1958, including bunkers and other costs of operation, but excluding foreign port fees. Of this amount, \$30,800,000 were expended on time charters and \$9,800,000 on voyage charters. Since the non-Bloc countries, other than Finland were not parties to any special clearing agreements with China, all but a small portion of these sums were payable in convertible foreign currency.

Counting each voyage charter as one ship month, Chinese expenditures

* Figure 3 follows on p. 16 .

for the average non-Bloc voyage charter are estimated to have amounted to \$87,300 per month. Time charters averaged \$49,700 per month. From this it would appear that time charters were considerably more economical from the Chinese viewpoint than voyage charters. This is probably true, but the figures overly distort the picture, because the vessels chartered for voyages were generally larger than the time chartered ships, were scheduled and used with greater efficiency in the time period, and most importantly, probably averaged several days longer than one month under Chinese control. The situation might be illustrated from another viewpoint by relating charter costs to freight moved. Per ton of merchandise imported and carried on coastal runs, the time chartered vessels cost about \$8.50 as against \$8.30 for goods imported on the voyage chartered vessels. It is estimated, however, that on outbound voyages of time chartered ships, China earned roughly \$10.00 per ton, or \$6,500,000 in all, which constituted a transportation credit in foreign exchange offsetting the amounts debited for chartering vessels. The decision on whether to make use of time or voyage charters appears to have rested on the extent of Chinese desires to control the vessel for more than an inbound trip.

The rates charged China for non-Bloc time charters varied during the year, as illustrated in Figure 4.* These rates are shown in three categories, the highest rates for long term charters, the lowest rates for shorter term charters of vessels permanently operating in the Far East, and the so-called matrix or general range level at which most of the charters were arranged. Such

* Figure 4 follows on p. 18 .

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charters were generally fixed from about 4 months to 7 months in length. The matrix was wider in January than in later months, inasmuch as the charters in that month were fewer and the rates more varied, a condition which is generally illustrative of hesitancy in open market operations.

B. Expenditures for Liner Service

Chinese expenditures for non-Bloc liner service from Europe in 1958 were estimated to be about \$6,140,000 and from Hong Kong and other areas, \$2,430,000. China paid the freight for liner service only on imports.

C. Expenditures for Tramp Ship Service

It is estimated that the seaborne trade not moved on ships under charter to China or on liners was conducted on a c.i.f. import and f.o.b. export basis, i.e., goods moving in both directions were priced net on board of the ship at the Chinese port. All Bloc ship cargoes are estimated to have been handled in this manner.

On c.i.f. imports it is estimated that freight expenditures in 1958 amounted to \$4,530,000 for goods imported on non-Bloc ships, operating independently of Chinese control. For Bloc ships, equivalent expenditures are believed to have been \$4,570,000 calculated close to charter rates which in the past have characterized the c.i.f. pricing of Chinese imports, but the actual arrangements are uncertain. Should any official Chinese data on freight expenditures become available, they may not include freight charges for c.i.f. imports, for in this case freight charges would be included in the price of the goods. Actually, however, a part of foreign exchange expenditures for goods imported under such terms would be for transportation, and therefore these estimates are included with expenditures in this report.

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APPENDIX B

GAPS IN INTELLIGENCE

The Chinese have not provided data on tonnages moved in international trade during 1958, and all comprehensive information on this score is estimated. Supporting these estimates are certain calculated data on non-Bloc trade, but seaborne trade by direction between China and the other Bloc countries remains a major gap despite the availability of figures on overall trade with China appearing on statements of one or two of the European Satellites.

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